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PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
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June 5, 2008

P.A. Nicholas, Director
Wai'ola O Molokai
Molokai Public Utilities, Inc.
Mosco, Inc.
745 Fort Street, #600
Honolulu, Hawaii 96813

Re: Wai'ola O Molokai ("Wai'ola"); Molokai Public Utilities, Inc. ("MPU"); Mosco, Inc.
("Mosco")

Dear Mr. Nicholas:

The Public Utilities Commission ("Commission") is in receipt of your letter dated May 30, 2008, providing "notice" that, unless some public or private entity assumes the operations of Wai'ola, MPU and Mosco (collectively, "Utilities") by the end of August, the Utilities will likely cease operations, resulting in the termination of services to the customers of those Utilities.

As you know, the Utilities have a duty to provide service to their customers; and, as such, they are required to provide service unless and until the Commission approves a transfer or surrender of their certificates of public convenience and necessity ("CPCNs"). While the Commission is cognizant of the Utilities' present financial conditions, it cannot and will not approve a surrender or transfer of the CPCNs unless and until another public or private entity can be found to operate the water and wastewater systems. The Utilities must continue to operate to ensure the health and safety of their customers. The Commission is aware of the attempts made by Molokai Properties, Limited ("MPL") and the Utilities to secure another provider of utility services, and is also aware that the County of Maui, as an existing provider of water and wastewater services on Molokai, appears to be the most viable alternative provider. Nonetheless, until the County or other third party takes over the operation of the Utilities' water and wastewater systems, the Commission expects the Utilities and MPL to take all necessary and prudent action to continue operations.

Given the existing situation as described in your letter, the Commission will need from the Utilities a plan for the continued operation of the Utilities beyond August 2008. The plan should include a detailed description of what needs to be done to ensure that the Utilities are able to continue to provide service in the absence of a third party assuming responsibility for the systems; specifically, please provide the Commission with detailed information and documentation on the financial requirements of each of the Utilities to be self-sustaining and the impact on the Utilities' ratepayers. Your letter notes, for example, that you have "looked at the possibility of requesting rate increases sufficient to make Wai'ola and MPU self-sustaining" but that they "do not have the funds necessary to go through such lengthy and costly proceedings." From information you have provided, it appears that rates would likely have to increase from \$1.85 per thousand gallons ("TG") to conservatively approximately \$5.50 per thousand gallons for Wai'ola and from \$3.18 to approximately \$5.66 per TG for MPU. The Commission, however, requires more detailed information and documentation. Accordingly, please provide detailed documentation as to the revenue requirements for each utility, their expenses, and the likely resulting rates that will be required to ensure the continued provision of utility services.

Please also provide the Commission with information and documentation on the amount of money or other assets that MPL has provided to the Utilities from January 2006 to the present, broken down by month and by utility. In addition, please describe all of the efforts undertaken by MPL and the Utilities to find a public or private entity or entities to operate the water and wastewater systems.

The Commission further notes that the 2007 annual financial report filed by Mosco indicates that, unlike MPU and Wai'ola, Mosco's revenues exceeded its expenses. Please explain your assertion that "unless some public or private entity is located to take over the operation of these three companies" which the Commission understands includes Mosco, "there will probably be an unavoidable termination of service" to Mosco customers in August.

To facilitate the transition of the Utilities to a third party or parties, please provide the Commission with all relevant information regarding the Utilities' operations and your plan for transitioning the Utilities to a third party or parties. The transition plan should identify all utility assets, ownership and valuation of the assets and the terms of any conveyance of those assets.

The transition plan and the other information and documentation requested by the Commission in this letter shall be filed with the Commission no later than June 12, 2008.

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Again, while the Commission is aware of the financial situation faced by MPU and Wai'ola, it must reiterate that the Utilities shall not cease operations unless and until it has received Commission approval to surrender or transfer their CPCNs. Failure to do so may subject the Utilities (and any other parties deemed to be responsible) to investigatory action by the Commission and penalties as authorized by law.

Please be advised that further regulatory action may follow.

Sincerely,



Carlito P. Caliboso
Chairman



John E. Cole
Commissioner



Leslie H. Kondo
Commissioner

CPC:JC:LHK:SKD:eh

c: Honorable Linda Lingle
Honorable Charmaine Tavares
Honorable Laura Thielen
Honorable J. Kalani English
Honorable Mele Carroll
Honorable Danny Mateo
Division of Consumer Advocacy